



# **Global Fixed Income**

## **Annual Plan: Fiscal Year 2005-2006**

**October 17, 2005**





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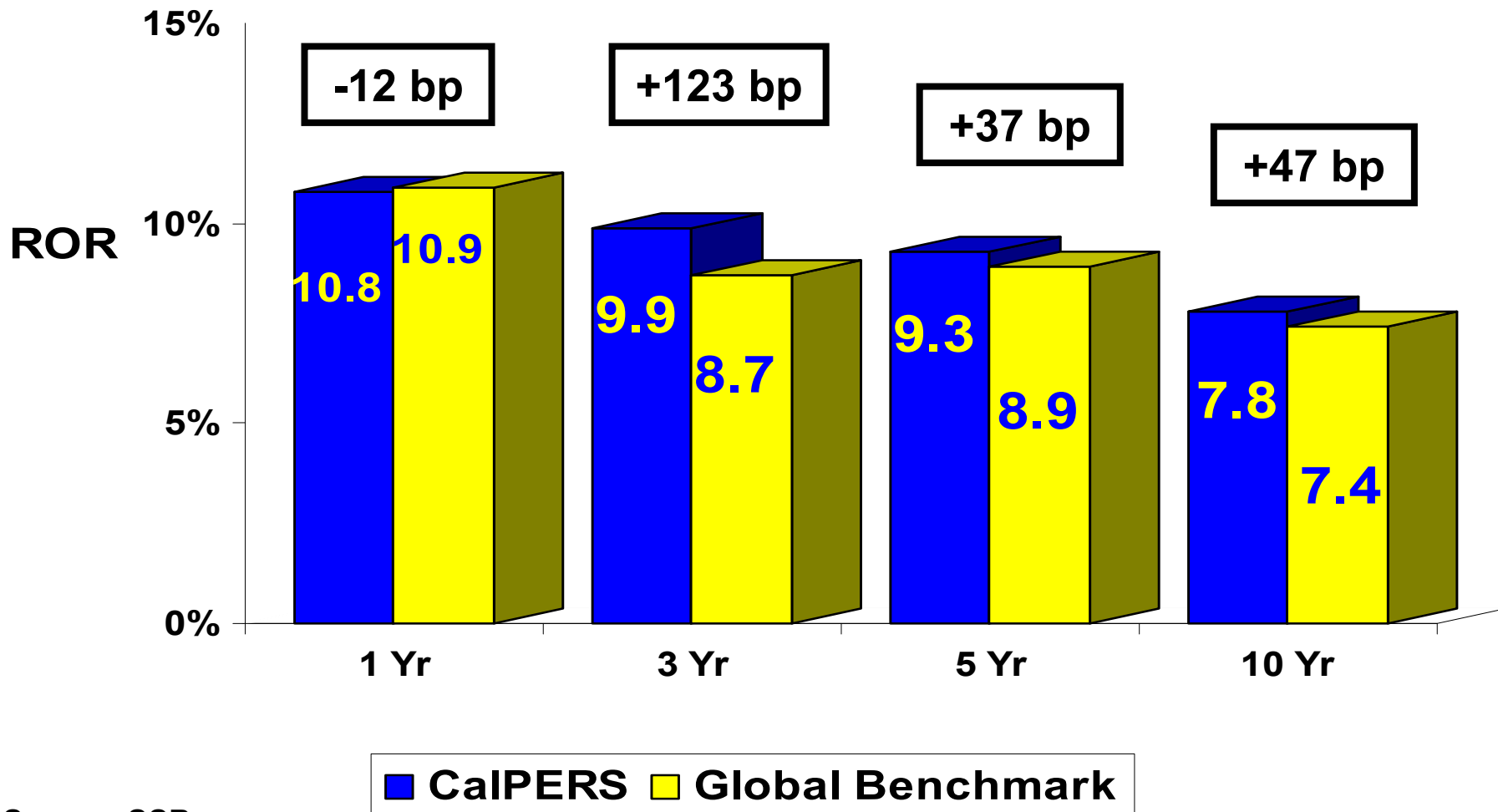
## Goal IX

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**“Achieve long-term  
sustainable, risk adjusted  
returns”**

# Global Fixed Income Annualized Active Return Ending 6/30/05

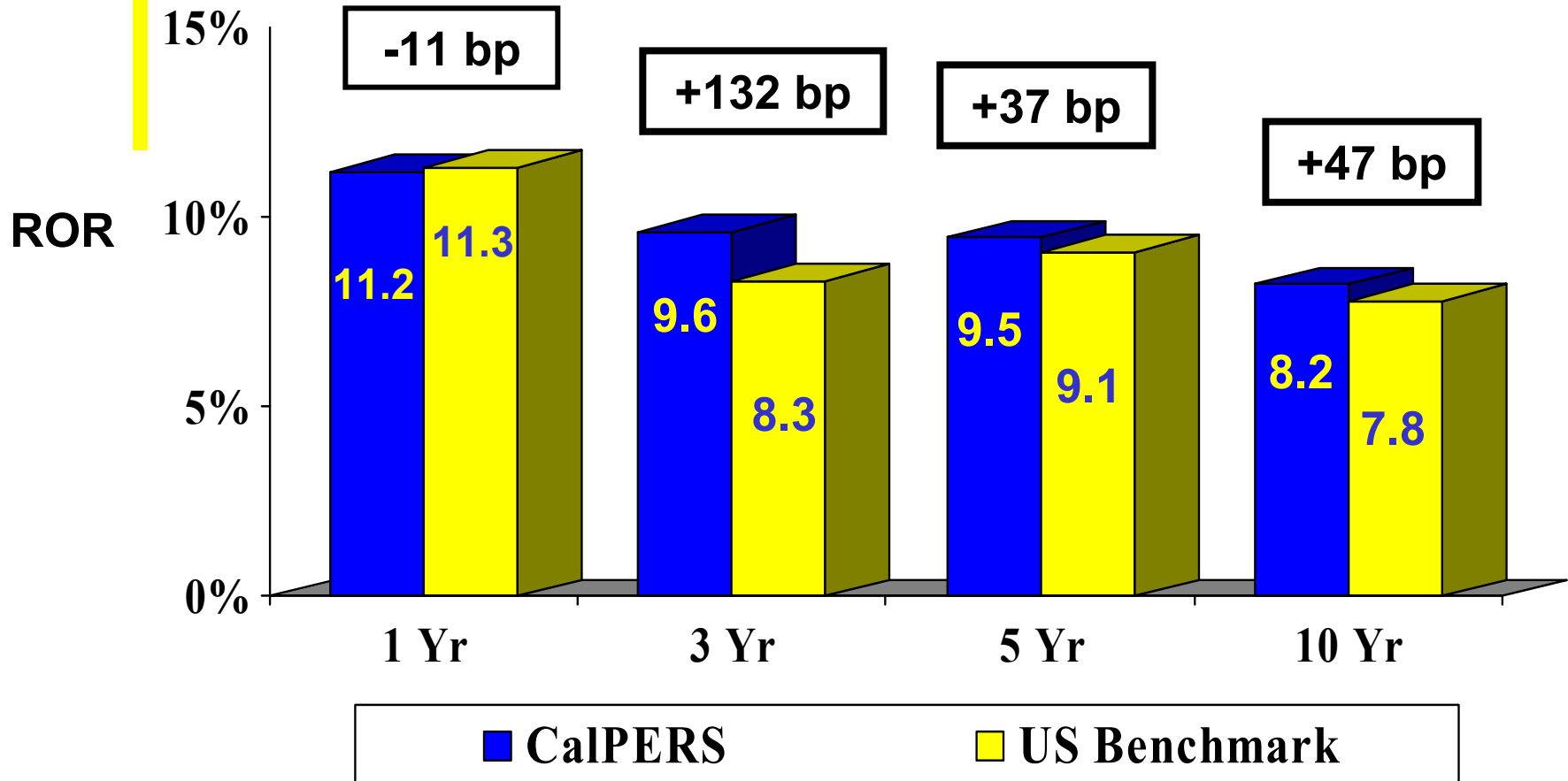
Portfolio Size \$48 Billion



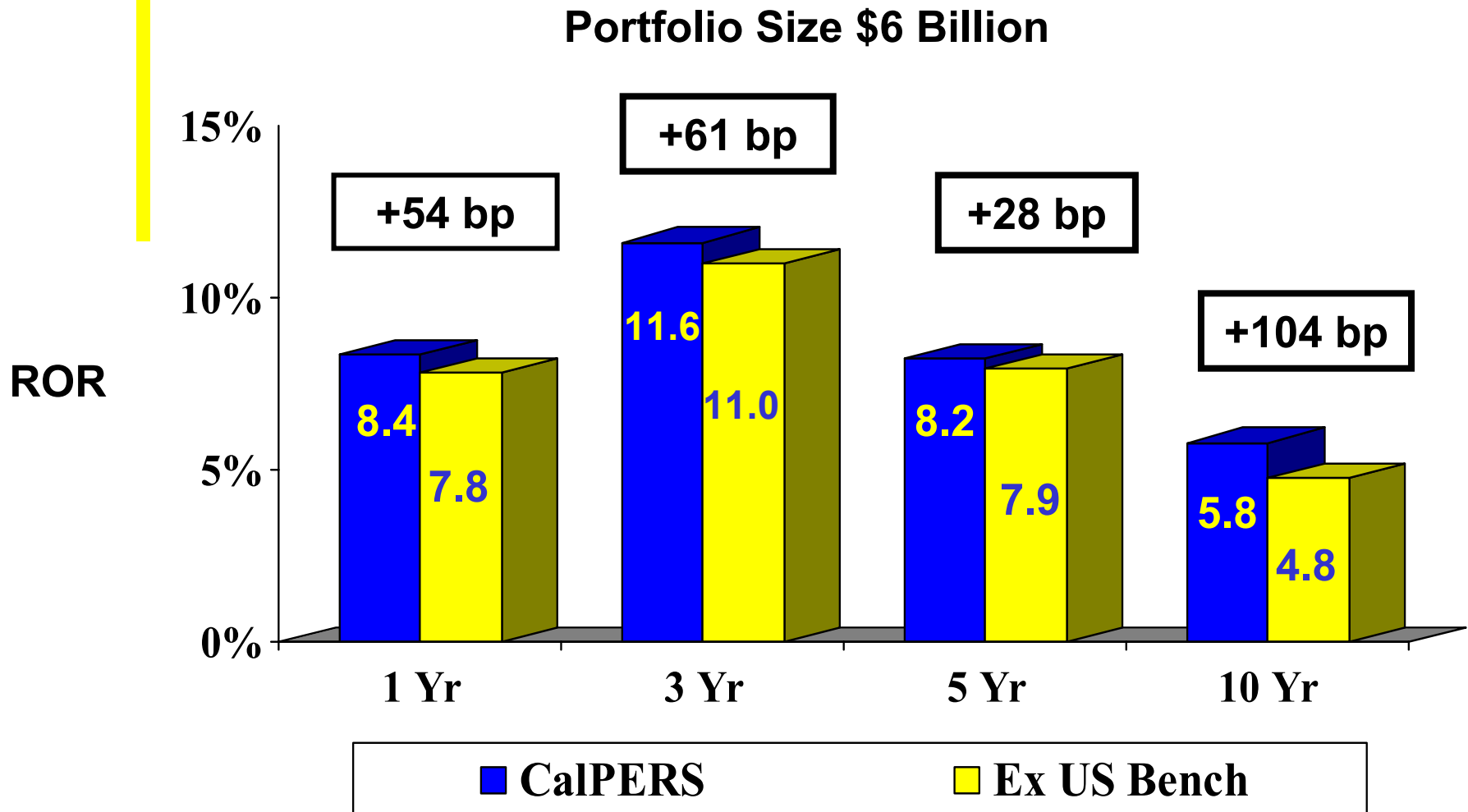
Source: SSB

# US Internally Managed Fixed Income Annualized Active Return Ending 6/30/05

Portfolio Size \$42 Billion

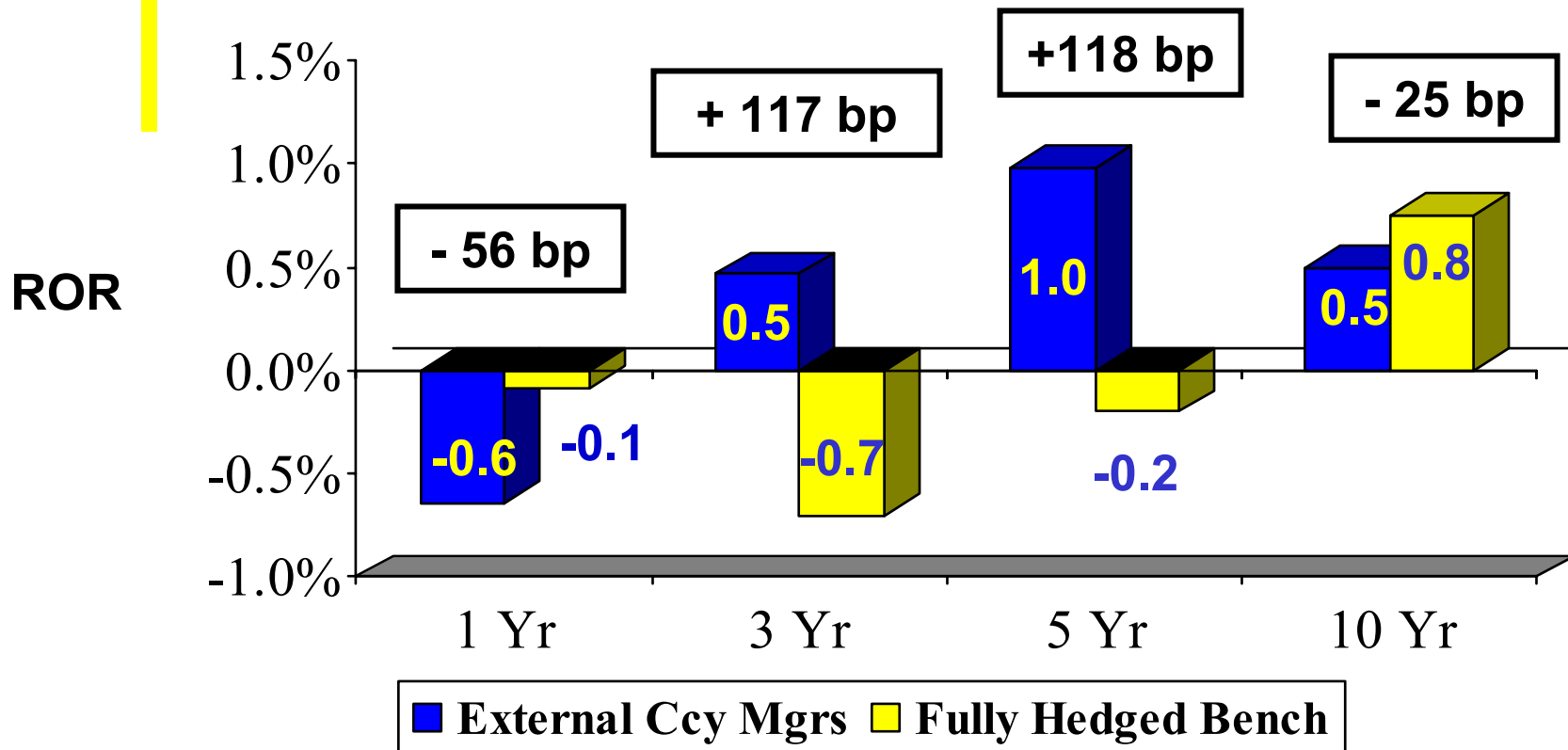


# International Fixed Income Annualized Active Return Ending 6/30/05



# External Active Currency Overlay Annualized Returns Ending 6/30/05

Portfolio Size \$8 Billion

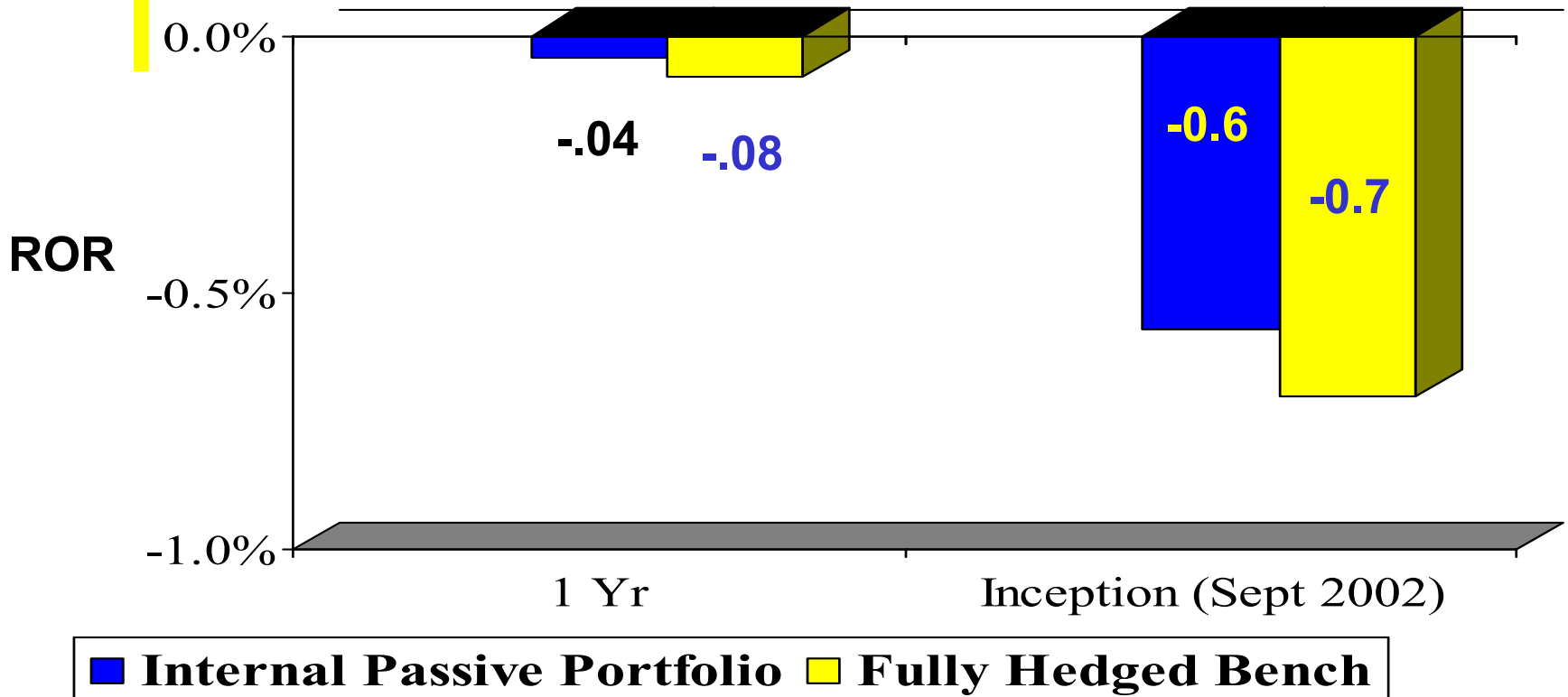


# Internal Passive Currency Overlay Annualized Returns Ending 6/30/05

Portfolio Size \$2 Billion

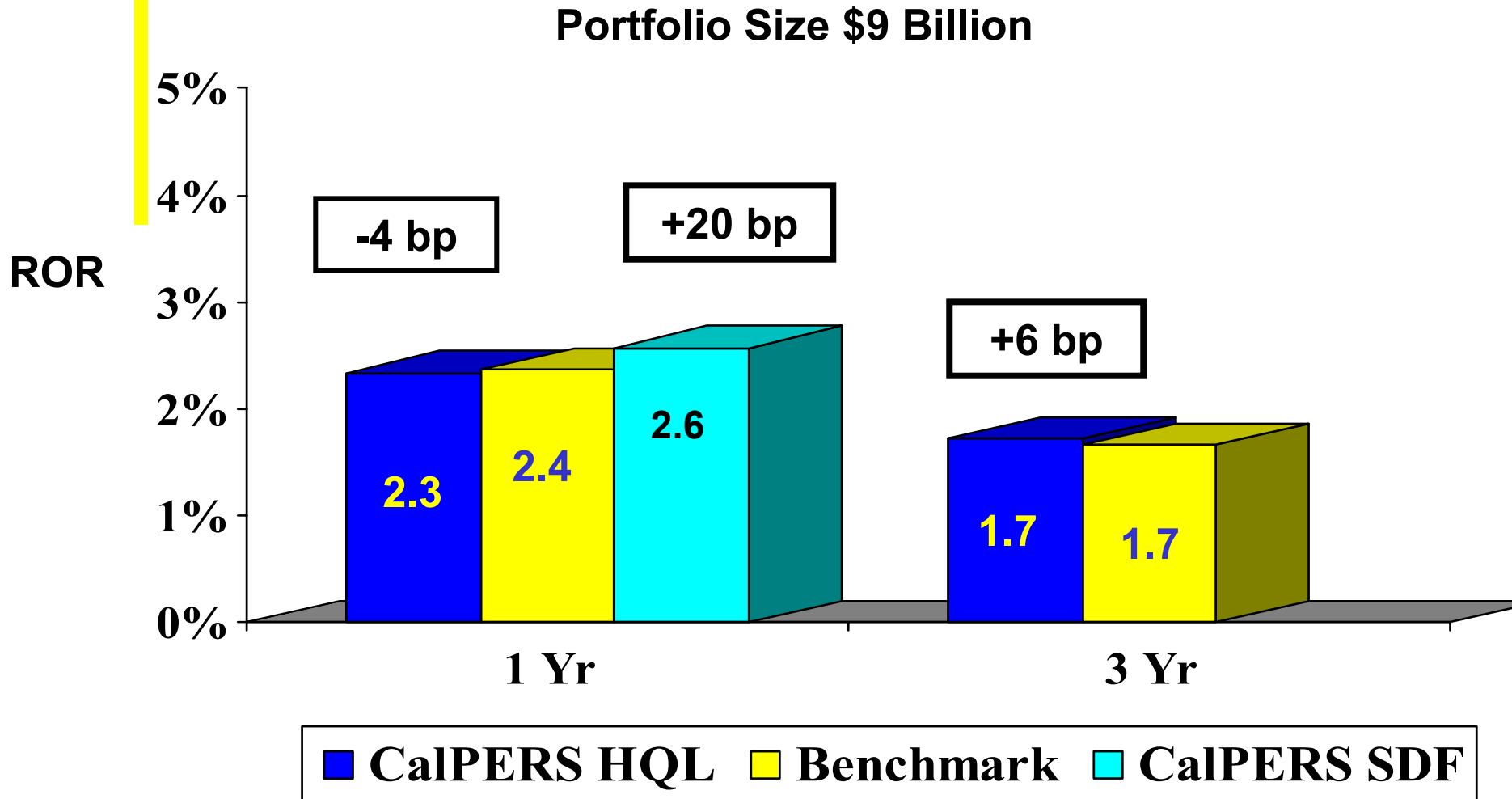
+ 4 bp

+ 13 bp



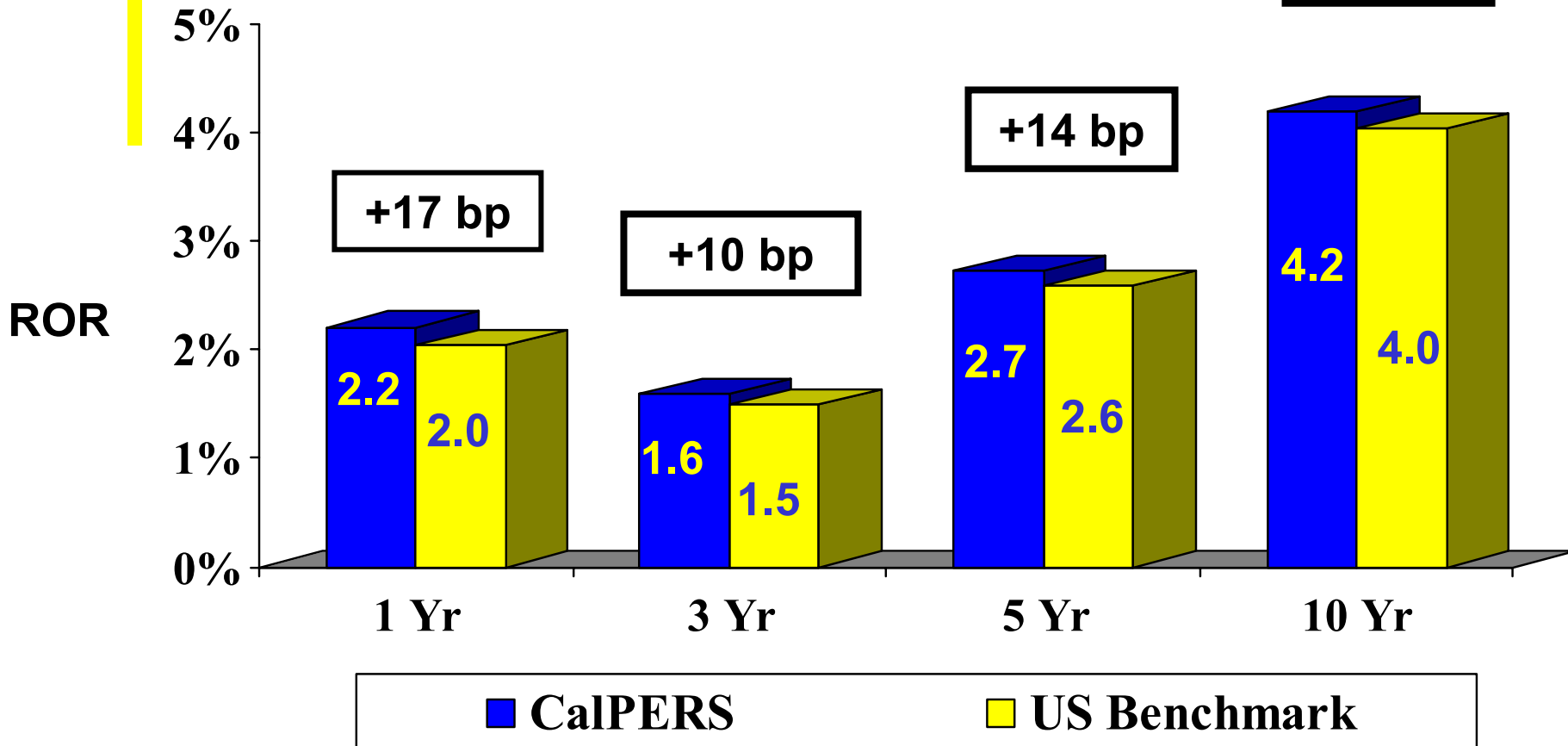


# Short Duration Annualized Active Return Ending 6/30/05



# Short Term Overnight Annualized Active Return Ending 6/30/05

Portfolio Size \$2 Billion





# Long Term Scorecard

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## Domestic Fixed Income

- Since 1986 annualized alpha +39 bp and alpha was positive in 14 out of 19 years
  - .737 Batting Average

## International Fixed Income

- Since inception (1989) annualized alpha +101 bp

## Currency Overlay

- Since inception (1992) reduced annualized volatility by 29 bp



# Long Term Scorecard

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## Short Duration

- Since inception (2000) High Quality LIBOR Portfolio annualized alpha +42 bp
- Since inception (2003) Short Duration annualized alpha +19 bp

## Short Term Overnight

- Since Inception (Benchmark established in 1992) annualized alpha +19 bp

## Securities Lending

- Since 1999, profits increase 250%



# Accomplishments for 2004/05

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- IC adoption of Foreign Debt Policy
- Initiated Credit Enhancement Program
- \$115 million profit in securities lending
- Back to Basics
  - Filled SPM Position
  - Securities Lending
    - New markets, improve compliance, more \$ in-house
  - Corporate Portfolio
    - Diversified portfolio
    - Policy change 1% cap on corporate benchmark



# Market Environment FY 2004/05

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- Rising short term interest rates
- Falling long term interest rates
- Falling real rates
- Credit and mortgage spreads at historically narrow levels



# Annual Plan for 2005/06

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- Bring in-house an additional \$2 billion in collateral management from securities lending
- Commit \$1 Billion to Credit Enhancement Program
- Bring in-house an additional \$1 Billion in internal currency overlay management
- Conduct search for international managers
- Keep risk positions low until spread premiums widen or long term interest rates rise

# Outlook- Wider Sector Spreads

Means More Conservative Portfolio

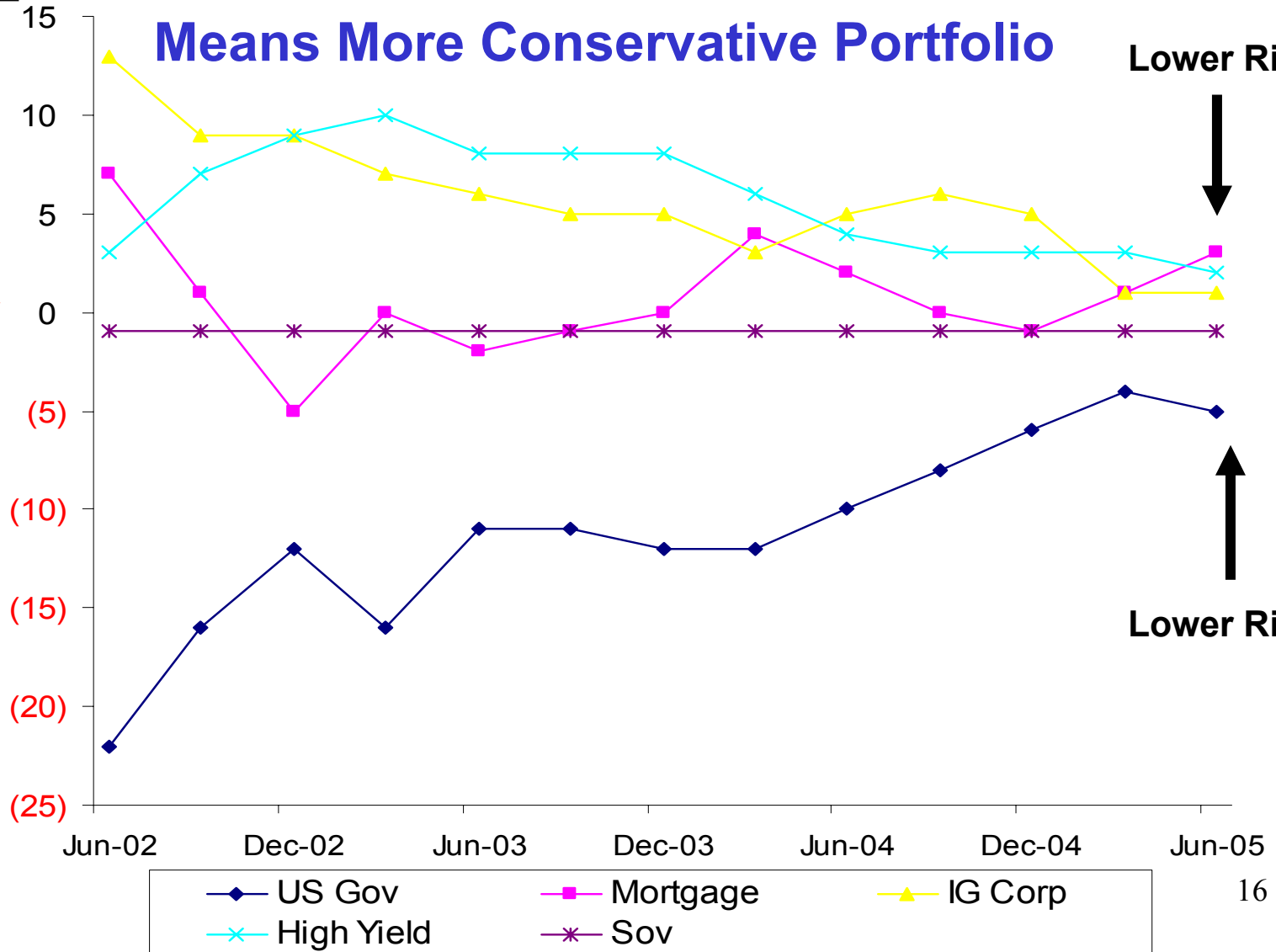
Lower Risk



Lower Risk



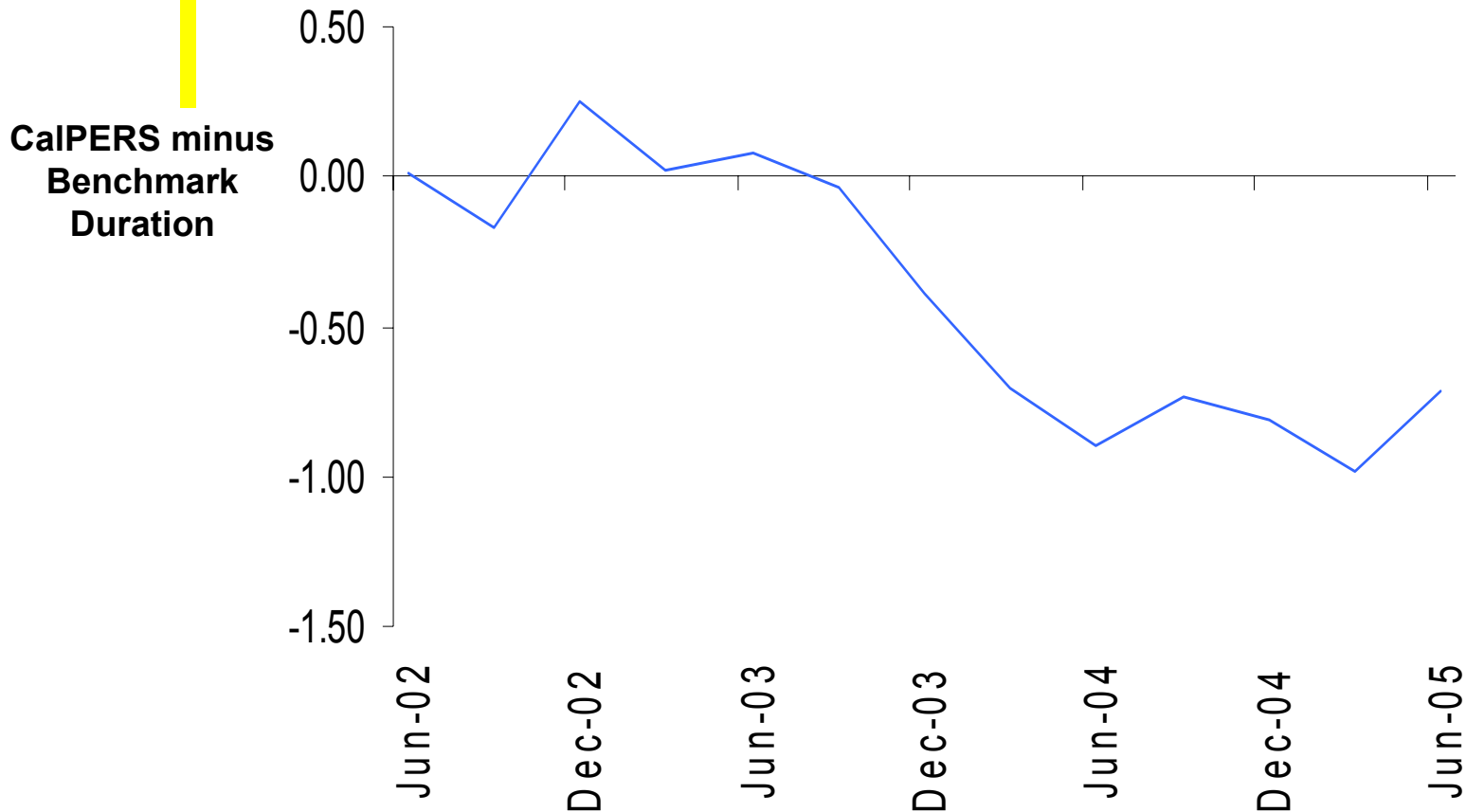
Percent  
Over/**Under**  
weight





# Outlook Higher Interest Rates

## Staff's Response is to Reduce Duration





# Summary

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- Excellent long term results in all programs
- Continue to “in-source”
- US internal portfolio
  - Reducing sector risk exposure
  - Lower duration than the index
    - Less exposed to rising interest rates
    - Underperforms the index in falling interest rates